June 11, 2012

Summary:
Chatham, Massachusetts; General Obligation

Primary Credit Analyst:
Victor Medeiros, Boston (1) 617-530-8305; victor_medeiros@standardandpoors.com

Secondary Contact:
Karl Jacob, Boston (1) 617-530-8134; karl_jacob@standardandpoors.com

Table Of Contents

Summary:

Chatham, Massachusetts; General Obligation

Credit Profile		
US$22.935 mil GO mun purp loan of bnds ser 2012 dtd 06/15/2012 due 06/15/2037		
Long Term Rating	AAA/Stable	New
Chatham GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Chatham, Mass.' general obligation (GO) municipal purpose loan of 2012 bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the town's previously issued GO bonds. The outlook is stable.

The long-term rating reflects our assessment of the town's:

- Extremely strong and diverse property tax base;
- Strong financial position heading into fiscal 2013; and
- Low-to-moderate debt burden, based on market value and peak summer population.

The town will use the proceeds from this bond issue to refund BANs issued to fund its wastewater treatment facility, as well as fund the Police Department/Annex Town hall and fund other capital projects.

Chatham is about 90 miles south of Boston, at the elbow of Cape Cod. The town contains beachfront property on both the ocean and the bay and is primarily an affluent summer resort and "second-home" community. Chatham has an estimated year-round population of 6,125 that nearly quadruples in the summer months to approximately 25,000. Due to its 67 miles of coastline and its desirable location, it has experienced high-end residential waterfront development. While selling prices for individual residential properties did decrease in the recession, total market value remains extremely strong, in our opinion, at $5.8 billion. Per capita market value is $955,000, based on the year-round population and $234,000 based on the peak summer population. The town's unemployment rate averaged 7.2% in 2011, below both the state and national rates. Effective buying income levels range from good to very strong, in our opinion, but we believe are understated because they only include the income of full-time residents, not the secondary-home owners. Town management estimates that 50% of the homes in Chatham are second homes.

Despite operating challenges stemming from the economy, Chatham's financial position has been relatively stable recently. Chatham's fiscal 2012 budget is balanced, with appropriations of $33 million, a 1.4% increase over the previous year. Most revenue items have come in as expected. The town also realized favorable variances on spending, as it benefited from a light winter. The town expects its operating reserves to remain level over the previous year. In fiscal 2011, the town implemented Governmental Accounting Standards Board (GASB) Statement No. 54, which is intended to make fund balance reporting more consistent and transparent. The town is reporting an overall total fund balance of $6.2 million, or roughly 17% of expenditures, which we consider strong. The total fund balance is made up of $1 million of assigned fund balance (3% of expenditures) and $2.5 million of unassigned fund balance (7.2%). The town also maintains a committed fund balance of $2 million (6% of expenditures). We note that the town's stabilization reserves, which are managed at a minimum level of $1.5 million, are now accounted for in the general fund as an unassigned fund balance.

On the whole, the town benefits from its high property tax base, which makes up more than 70% of total revenues. In addition, the town maintains one of the lowest tax rates in the commonwealth, which again is reflective of the strong level of property wealth relative to the costs of services the town provides. Tax collections have historically remained strong despite the large number of second-home properties. Current collections have averaged 99% in the past five years. State aid represents a limited share of the town's general fund revenue, at 12%, which we view as a credit strength given the ongoing risk of state aid reductions.

Chatham's 2013 proposed budget totals $34.3 million, a 2% increase over the previous year. Higher debt service costs are mainly driving the budget increase. On a budgetary basis, the town is projected to benefit from a school regionalization with a neighboring town. As part of the regional agreement the town will pay roughly 28% of the district's annual budget (roughly $8.1 million), which is a $2 million savings in fiscal 2013 from the previous year.

Overall, Standard & Poor's considers Chatham's management practices "good" under its Financial Management Assessment (FMA) methodology. In our framework, an FMA of good indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

These bonds are being issued to pay the town's share of the financing of a wastewater treatment facility, as well as to finance the police department and town offices, and other improvement projects.

Chatham is completing phase I of a voter-approved $180 million project to expand its wastewater treatment facility, which it is partially funding with this issue. Of the $59.5 million phase I costs, the town will receive $41 million of assistance from the U.S. Department of Agriculture through a combination of loans and grants. The town will also receive a low interest loan from the Massachusetts Water Pollution Abatement Trust for $14.4 million. The town's share of the project is roughly $3 million. The town projects to repay this debt obligation through a combination of tax levy and water rates increases. The debt service on the project funded from this issue will be debt excluded from Proposition 2 1/2. Aside from these projects, the town's future capital needs are small, in our view, and are identified with extensive long-term planning.

We consider Chatham's overall debt as a share of market value, including this issue, to be low at 1.3%, before taking into account any self-support. On a per capita basis, when measured against the year-round population, we consider the town's debt outstanding high at $12,898; however, this figure falls to $3,159, which we view as moderate, when the seasonal population is taken into account. Following this issue, the town's amortization will be average, in our opinion, with more than 56% of principal retired in the next 10 years. Debt service carrying charges were moderate at 14% of expenditures in 2011. We note that 85% of the town's general obligation debt is exempt from the limitations of Proposition 2 1/2.

An additional long-term credit consideration is the town's long-term pension and other postemployment benefit (OPEB) liabilities. As of July 1, 2010, the town's OPEB unfunded actuarial accrued liability was $43.7 million, based on a discount rate of 5%. In fiscal 2011, the annual required contribution (ARC) was $3.1 million (roughly 8% of general fund expenditures). The town currently funds this liability on a pay-as-you-go basis. The town's 2011 payment was $1 million, or 34% of the ARC.

For pensions, the town participates in the Barnstable County Retirement System. The town fully funds its ARC, which was $1.4 million in 2011, or 4.5% of general fund expenditures.

Outlook

The stable outlook reflects our expectation that the town will likely continue to maintain strong reserves. In our view, the town's extremely strong, highly desirable, and diverse property tax base lends stability to property tax revenue, which is the town's main revenue source. In addition, we expect the town's debt service payments as a percent of general fund expenditures to remain moderate and the overall net debt burden to remain low relative to the market value. For these reasons, we do not anticipate changing the rating within the two-year parameter of the outlook. Over time, credit factors that could lead toward a negative rating action would be sustained operating deficits and a weaker financial position.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.